ET2/CG-89-45APPROVING STANDARD OFFER

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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| Barbara Beerhalter | Chair |
| Cynthia A. Kitlinski | Commissioner |
| Norma McKanna | Commissioner |
| Robert J. O'Keefe | Commissioner |
| Darrel L. Peterson | Commissioner |

In the Matter of a Petition by Cooperative Power to Revise its Standard Offer for Qualifying Facilities Over 100 kw Willing to Sign Long-Term Contracts

ISSUE DATE: June 28, 1989

DOCKET NO. ET2/CG-89-45

ORDER APPROVING STANDARD OFFER

## PROCEDURAL HISTORY

On January 27, 1989, Cooperative Power (CP) sought authority from the Minnesota Public Utilities Commission (the Commission) to revise its standard offer for qualifying facilities (QFs) over 100 kw willing to sign long-term contracts.

In a Report of Investigation and Recommendation of May 11, 1989, the Department of Public Service (DPS or the Department) recommended approval.

The Commission met on June 6, 1989 to consider this matter.

## FINDINGS AND CONCLUSIONS

CP proposed two revisions to its computation of the capacity payment due to a QF. The Company proposed to use a peaking unit or purchase rather than a baseload unit as the proxy for its avoidable costs and to advance the proxy's in-service date from 2003 to 1999. The capacity payment would consist of a credit for avoided Operation and Maintenance (O&M) costs and a credit for avoided capital costs.

The O&M credit is based on budgeted O&M costs for the Company's St. Bonifacius peaking plant in 1989, escalated by 5% annually over the life of the QF's contract.

The credit for avoided capital costs is based on the difference between the present value of the capital costs associated with a series of peaking units installed every 33 years, beginning in 1999 and the present value of the capital costs associated with a series of peaking units installed every 33 years, beginning in the year that the QF's contract ends.

CP used the annual cost of purchasing peaking capacity from the Mid-Continent Area Power Pool (MAPP) which is currently $24/kw-yr., to derive the proxy's installed cost in 1999.

CP also updated its projections of avoided energy costs, but proposed no changes to its computation and no changes to the non-pricing provisions of its current standard offer.

The Commission will approve CP's proposed revisions. The Company's most recent load projections indicate a need for additional summer capacity in 1999. Further, adding peaking rather than baseload capacity is preferable for two reasons. CP projects that between 1989 and 1999 its summer peak demand will grow at a higher rate than its winter peak demand, thereby increasing the amount of additional power needed for short periods in the summer. Further, CP is currently able to generate most of its energy from two, large baseload units (Coal Creek 1 and 2); therefore, potential fuel savings from adding another baseload unit are relatively small.

The Commission finds that CP's determination of the capital cost of a new peaking unit is at the low end of a reasonable range. Since the current MAPP price of $24/kw-yr is fairly low, imputing it as the cost of deferring a new peaking unit for one year yields a relatively low installed cost for the unit of $523/kw in 1999. In contrast, Northern States Power Company (NSP) projects that its planned peaking unit will cost $536 in 1995 dollars. Escalating NSP's estimate by 5% over four years yields an installed cost of 1999 dollars of $652/kw.

Thus, CP's estimate of the cost of a future peaking plant is considerably below NSP's. Nevertheless, a number of other factors indicate that CP's proposal reasonably approximates its avoided costs. First, the Company does not need any capacity for the next 10 years, and under the Commission's rules, it could argue that its avoided capacity costs are at or near zero. Second, CP may be able to buy peaking capacity rather than build its own unit. If so, it may be able to negotiate a discount based on the seller's abundance of capacity. Finally, if CP can buy capacity, it may be able to negotiate a six-month seasonal purchase thereby foregoing costs for winter capacity.

The Commission notes that this standard offer differs from others it has approved. The differences reflect the differences in CP's circumstances compared to the others. For example, larger utilities which construct their own plants may be in a better position to bargain with vendors and to implement cost savings programs on their own. In addition, CP contemplates installing a combustion turbine peaking plant, while the others look to adding baseload steam turbine plants.

The 5% escalation rate proposed by CP and approved herein is not in conflict with the Commission's recent decision in <u>Dakota and Winona Counties v NSP</u>, Docket Number E-002/CG-88-489, for two reasons. First, CP's escalation rate refers to Operations and Maintenance costs, not construction costs, and second, escalation rates may vary depending upon individual companies and the type of plant to be built. The decision in the Counties' case referred to baseload plant, not the peaking unit described here.

Finally, the Commission recognizes that electric utilities are not required to provide standard rates to QFs greater than 100 kw. CP has agreed to develop a standard offer to encourage alternative power production; the Commission encourages that effort.

ORDER

1. Cooperative Power's revisions to its standard offer for qualifying facilities over 100 kw willing to sign long-term contracts is approved.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)